

COMPLIANCE DIVISION



The **Compliance Division** is responsible for the licensing and regulatory supervision of the following seven types of financial institutions operating in Tennessee:

- Check Cashing
- Deferred Presentment Service Companies
- Money Transmitters
- Tennessee Industrial Loan & Thrift Companies
- Insurance Premium Finance Companies
- Residential Mortgage Lenders
- Residential Mortgage Brokers

With the development of a comprehensive examination program, all of the above industries are subject to periodic examinations by the Division's field examiners. The Compliance Division's examinations are designed to test and enforce compliance with Tennessee laws as well as Federal regulations. These laws were written in order to protect the consumer by limiting the amount of interest, loan charges, and insurance charges that can be assessed to them.

The field examiners also investigate consumer complaints and allegations of consumer fraud and usury. The Division's staff is also responsible for investigating consumer complaints involving title pledge lenders and reports of inadequate or inaccurate disclosures given to consumers by these title pledge lenders.

During 1999, Compliance Division examiners conducted 1,832 examinations of licensed entities. As a result of these examinations, refunds in a total amount of \$553,334.00 were made.

The Division also processed 627 consumer complaints, resulting in refunds to consumers in the amount of \$8,188.00.

Selecting representatives from mortgage bankers and brokers, industrial loan and thrifts, prominent attorneys, and Compliance Division staff members, we have formed a Mortgage Banking Task Force. This Committee is reviewing licensing and lending activities under both the Industrial Loan and Thrift Companies Act and the Residential Lending, Brokerage, and Servicing Act.

We have expanded the Division's presence on the internet by updating our Web page to include Bulletins, applications, and a listing of all entities licensed or registered with the Compliance Division, as well as their addresses.

DEFERRED PRESENTMENT SERVICES

APPLICATIONS

The effective date of the Deferred Presentment Services Act was October 1, 1997. Persons engaged in the business of deferred presentment services before October, 1997 could continue to operate without a license, if the application was filed within 60 days after the effective date of the Act. In 1999, the Department averaged 18 applications a month, making a total of 227. The following information was compiled for the period of October 1997 to December 1999.

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>Total</u>
Total Apps Received	549	233	227	1009
Approved	34	727	207	968
Denied	3	5	8	

The Act requires a separate license for each location from which the applicant does business. Of the 968 licenses granted, 819 were active as of December 31, 1999. The break down by ownership type is shown below.

<u>Ownership Type</u>	<u>Number of Licenses</u> (As of 12/31/99)
Corporation	367
Limited Liability Corporation	274
Single Proprietorship	147
Partnership	28
Limited Partnership	2
Other	1
Total	819

ANNUAL REPORT INFORMATION

By September 1 of each year, each licensee must, pursuant to Tennessee Code Annotated § 45-17-119, file with the Commissioner of Financial Institutions an Annual Report covering the licensee's business activities as of the close of business on June 30th. These reports include a balance sheet, statement of income and expense, as well as other statistical data consistent with generally accepted accounting principles.

The following tabulation represents aggregate information from usable reports filed by 326 companies having over 700 locations.

Balance Sheet Information as of June 30, 1999

Total Assets	\$ 51,864,372
Receivables Outstanding	\$ 16,152,783
Total Liabilities	\$ 12,884,695
Net Worth	\$ 38,979,681

Total assets of the average-size company operating in Tennessee are \$159,093. We have 18 companies with assets in excess of \$500,000, 103 companies have assets of between \$100,000 and \$500,000, and the remaining 205 companies have assets of under \$100,000.

Income Information for 12 Months—Ended 6/30/99

The statements of income and expenses, from which the following information was compiled, were for the period of 7/1/98 – 6/30/99:

Total Operating Income	\$ 60,476,544
Salary Expense	\$ 13,341,234
Bad Debt Expense	\$ 4,214,320
Net Income (After Tax)	\$ 10,337,781

Of the 326 reporting companies, 74 reported operating losses and 24 reported net income of over \$100,000 for the period ending June 30, 1999. The average company made a profit of \$31,711.

As of June 30, 1999, the industry made a return on assets of 19.9% based on total assets and a return on equity of 26.5%.

Transactional Data

The following transactional data was reported for the reporting period ending June 30, 1999:

Number of receivable transactions	\$ 1,845,273
Transactions during year—\$ amount	\$ 285,377,273
Avg. size of receivable transactions	\$ 154

Number of transactions by size of check:

\$1 - \$100	191,222
\$100 - \$250	1,634,614
\$250 - \$500	19,437

EXAMINATIONS

For the year ending December 31, 1999, the Department's Compliance Division conducted 789 examinations of deferred presentment offices. The

Department's compliance examiners typically review a random sample of the licensee's transactions looking primarily at the fees charged and the disclosures given to the customers. The Department required that all excessive or unauthorized fees be refunded to the customers pursuant to Tennessee Code Annotated § 45-17-115, resulting in total refunds of \$65,371 to 2,033 customer accounts in 1999.

DEFERRED PRESENTMENT PENALTY PAYMENTS

As of December 31, 1999, examiners of the Compliance Division have identified 24 businesses, comprising 36 locations, which were operating without a deferred presentment services license. Any of these companies wanting to obtain a license were required to refund any fees they collected in excess of those authorized by the Act and pay a civil money penalty. Those businesses that did not or could not meet the licensing criteria in T.C.A. § 45-17-104 were required to refund all fees collected since the effective date of the Act and pay a civil money penalty.

In 1998, the Department had, pursuant to T.C.A. § 45-17-115, assessed civil money penalties against 18 unlicensed entities totaling \$17,000. The following year, 6 companies paid civil money penalties totaling \$1,800.

Deferred Presentment Penalty Payments:

	Companies	Locations	Penalty
1998	18	28	\$ 21,800
1999	<u>6</u>	<u>8</u>	<u>\$ 1,800</u>
Total:	24	36	\$ 23,600

CONSUMER COMPLAINTS

Under Tennessee Code Annotated § 45-17-117, any person aggrieved by the conduct of a licensee under this chapter in connection with the licensee's regulated activities may file a written complaint with the Commissioner who may investigate the complaint. The Department will often conduct an examination on the licensee to verify the claim and address other violations, as well. They generally involved licensees who had either charged service fees in excess of the rate authorized by T.C.A. § 45-17-112(b) or imposed late fees. In 1999, the Department received 17 complaints, resulting in refunds of \$145.80 to 3 customers. This figure compares with 23 written complaints received in 1998.

INDUSTRIAL LOAN AND THRIFT COMPANIES COMPOSITE ANNUAL REPORT

(Year Ending December 31,1998)

	Dec. 31, 1998	Dec. 31, 1997	Dec. 31, 1996
Number of Offices Included in this Report	719	723	726
Number of Employees in State at Year-End	2,777	2,960	3,039
REGULATED ENTITIES PROFIT PERCENTAGE			
RATE OF RETURN			
Average Net Receivable	\$1,749,519,280	\$1,715,151,645	\$1,777,474,167
Net Income	\$14,122,016	\$38,351,232	\$41,809,286
Rate of Return	0.80%	2.23%	2.35%
ANALYSIS OF CHARGES ON LOANS			
Charges Collected and/or Earned	\$402,754,204	\$404,674,467	\$399,383,353
Average Monthly Rate Collected	1.91%	1.96%	1.87%
ANALYSIS OF EXPENSE PER ACCOUNT			
Average Number of Accounts Outstanding	464,682	486,295	501,011
Total Expenses	\$388,632,188	\$366,323,235	\$374,401,065
Average Monthly Expense Per Account	\$69.70	\$62.75	\$62.27
STATEMENT OF INCOME AND EXPENSES			
Total Operating Income	\$402,754,204	\$404,674,467	\$399,383,353
Total Expenses Before Income Taxes	\$380,180,626	\$352,517,513	\$358,111,835
Income Before Income Taxes	\$22,573,578	\$52,156,954	\$41,271,518
OTHER INFORMATION			
Number of Loans Made During the Year	793,849	840,643	763,979
Dollar Volume of Loans Made During the Year	\$1,779,763,424	\$1,938,506,356	\$1,724,436,215
Bad Debts	\$63,986,962	\$67,867,313	\$64,360,821
Bad Debts - Number of Accounts	43,321	51,254	46,756

TENNESSEE DEPARTMENT OF FINANCIAL INSTITUTIONS

INDUSTRIAL LOAN AND THRIFT COMPANIES LOANS LESS THAN \$300

(Year Ending December 31, 1998)

	Dec. 31, 1998	Dec. 31, 1997	Dec. 31, 1996
Number of Offices Included in this Report	23	20	20
Number of Employees in State at Year-End	84	80	88
REGULATED ENTITIES PROFIT PERCENTAGE			
RATE OF RETURN			
Average Net Receivable	\$4,277,484	\$3,955,761	\$4,316,678
Net Income	\$565,334	\$721,397	\$420,035
Rate of Return	13.21%	18.20%	9.73%
ANALYSIS OF CHARGES ON LOANS			
Charges Collected and/or Earned	\$4,838,325	\$4,671,229	\$4,372,589
Average Monthly Rate Collected	9.42%	9.80%	8.44%
ANALYSIS OF EXPENSE PER ACCOUNT			
Average Number of Accounts Outstanding	29,883	31,268	35,423
Total Expenses	\$4,272,991	\$3,949,832	\$3,952,554
Average Monthly Expense Per Account	\$11.92	\$10.53	\$9.30
STATEMENT OF INCOME AND EXPENSES			
Total Operating Income	\$4,838,325	\$4,671,229	\$4,372,589
Total Expenses Before Income Taxes	\$4,225,446	\$3,892,148	\$3,908,988
Income Before Income Taxes	\$612,879	\$779,081	\$463,601
OTHER INFORMATION			
Number of Loans Made During the Year	183,848	190,016	206,500
Dollar Volume of Loans Made During the Year	\$33,385,247	\$32,157,637	\$33,738,971
Bad Debts	\$733,647	\$848,611	\$921,268
Bad Debts - Number of Accounts	5,731	7,182	8,478

INDUSTRIAL LOAN AND THRIFT COMPANIES LOANS GREATER THAN \$300

(Year Ending December 31, 1998)

	Dec. 31, 1998	Dec. 31, 1997	Dec. 31, 1996
Number of Offices Included in this Report	696	703	706
Number of Employees in State at Year-End	2,693	2,880	2,951
REGULATED ENTITIES PROFIT PERCENTAGE			
RATE OF RETURN			
Average Net Receivable	\$1,745,241,796	\$1,711,195,884	\$1,773,157,489
Net Income	\$13,556,682	\$37,629,835	\$41,389,251
Rate of Return	0.80%	2.19%	2.33%
ANALYSIS OF CHARGES ON LOANS			
Charges Collected and/or Earned	\$397,915,879	\$400,003,238	\$395,010,764
Average Monthly Rate Collected	1.90%	1.94%	1.85%
ANALYSIS OF EXPENSE PER ACCOUNT			
Average Number of Accounts Outstanding	434,799	455,027	465,588
Total Expenses	\$384,359,197	\$362,373,403	\$370,448,511
Average Monthly Expense Per Account	\$73.67	\$66.36	\$66.30
STATEMENT OF INCOME AND EXPENSES			
Total Operating Income	\$397,915,879	\$400,003,238	\$395,010,764
Total Expenses Before Income Taxes	\$375,955,180	\$348,625,365	\$354,202,847
Income Before Income Taxes	\$21,960,699	\$51,377,873	\$40,807,917
OTHER INFORMATION			
Number of Loans Made During the Year	610,001	650,627	557,479
Dollar Volume of Loans Made During the Year	\$1,746,378,177	\$1,906,348,719	\$1,690,697,244
Bad Debts	\$63,253,315	\$67,018,702	\$63,439,553
Bad Debts - Number of Accounts	37,590	44,072	38,278